

Message Text

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SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC)
REVIEW OF YUGOSLAVIA

REF: (A) USOECD 11676; (B) BELGRADE 2591; (C) EDR(77)10

1. WE CONCUR IN LINES OF QUESTIONING SUGGESTED PARA (10)
REF (A) AND PARA (3) REF (B).

2. IN LIGHT OF 1976 IMPROVEMENT IN REAL FOREIGN BALANCE
AND SECRETARIAT'S BELIEF THAT RETURN TO CURRENT ACCOUNT
DEFICIT IN 1977 IS NOT CAUSE FOR SHORT-RUN CONCERN, IT MIGHT
BE FEASIBLE FOR GOY TO MOVE TOWARDS REDUCING RESTRICTIONS
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PAGE 02 STATE 093997

ON IMPORTS, INCLUDING REDUCTION OF IMPORT SURCHARGE, AND
RELAXING REQUIREMENTS TYING IMPORTS TO EXPORTS. MISSION
SHOULD EXPLORE GOY INTENTIONS IN THIS AREA.

2. IT MIGHT BE INTERESTING TO DETERMINE WHETHER 1976
INCREASE IN EXPENDITURES AND MONEY SUPPLY WERE RELATIVELY
CONSTANT THROUGHOUT THE YEAR OR CONCENTRATED IN FIRST

OR SECOND HALF-YEAR. IF INCREASE WAS PRIMARILY IN LATTER PART OF 1976, EFFECTS WILL NOT HAVE WORKED WAY THROUGH SYSTEM, WITH OBVIOUS IMPLICATIONS FOR 1977 ECONOMIC PERFORMANCE.

3. PARA (4) REF (A) DOES NOT TRACK. FIVE AND ONE-HALF PERCENT INCREASE IN REAL SOCIAL PRODUCT AND THREE PERCENT INCREASE IN EMPLOYMENT IMPLIES TWO AND ONE-HALF PERCENT INCREASE, NOT DECREASE, IN PRODUCTIVITY. PERHAPS SECRETARIAT MEANT TO REFER TO A DECLINING (BUT STILL POSITIVE) RATE OF INCREASED PRODUCTIVITY. WE WOULD BE INTERESTED IN LEARNING WHY 3 PERCENT INCREASE IN EMPLOYMENT IMPLIES FURTHER INCREASE IN UNEMPLOYMENT. DOES THIS REFLECT FURTHER IMMIGRATION (RETURNING GUEST WORKERS), AS SUGGESTED PARA (4) REF (B)?

4. WE ARE INTRIGUED BY STATEMENT PARA (6) REF (A) RE SLUGGISH DOMESTIC DEMAND IN FACE OF 26 PERCENT INCREASE IN EXPENDITURES AND 53 PERCENT INCREASE IN MONEY SUPPLY. MISSION SHOULD EXPLORE REASONS FOR THIS SOMEWHAT ATYPICAL BEHAVIOR.

5. WE ARE ALSO STRUCK BY EXTREMELY HIGH LEVEL OF INVENTORIES AND AGREE THIS FACTOR MERITS FURTHER ANALYSIS. IF STOCKS ARE LARGELY RAW MATERIALS, THIS SHOULD HAVE FAVORABLE EFFECT ON CURRENT ACCOUNT BY REDUCING NEED FOR IMPORTED RAW MATERIALS. IF LARGELY FINISHED PRODUCTS, I.E., OUTPUT OF YUGOSLAV INDUSTRY, THIS MIGHT FACILITATE INCREASED EXPORTS IF GOODS ARE IN FACT SALEABLE. IF STOCKS LIMITED OFFICIAL USE

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PAGE 03 STATE 093997

REPRESENT UNSALEABLE FINISHED PRODUCTS, IMPLICATIONS FOR YUGOSLAV ECONOMY ARE NOT FAVORABLE.

6. GIVEN RISING RATE OF INFLATION IN FIRST QUARTER OF 1977, CAN GOV REASONABLY EXPECT HOUSEHOLDS TO BE A MAJOR SOURCE OF INVESTMENT FINANCE? (THIS MIGHT BE A MORE IMPORTANT FACTOR THAN INSTITUTIONAL RIGIDITIES.)

7. RE PARA 10 (A) REF (A), IS CORRECT REFERENCE TO SUBSIDY TO CAPITAL "FORMATION" OR CAPITAL "UTILIZATION"? ARTIFICIALLY LOW INTEREST RATES WOULD APPEAR TO ENCOURAGE CAPITAL INTENSIVE INVESTMENT, WHICH MAY NOT BE CONSISTENT WITH APPARENT YUGOSLAV LABOR SURPLUS.
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